ANNUAL REPORT 2006

SOCO

SASKATCHEWAN OPPORTUNITIES CORPORATION

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LETTER OF TRANSMITTAL

April 25, 2007

To His Honour
The Honourable Dr. Gordon Barnhart
Lieutenant Governor of the Province of Saskatchewan

Dear Sir:

I have the honour to submit the Annual Report of Saskatchewan Opportunities Corporation for the year ended December 31, 2006, including the financial statements duly certified in accordance with *The Saskatchewan Opportunities Corporation Act*.

Respectfully submitted,

Eric Cline, Q.C.
Minister Responsible for Saskatchewan Opportunities Corporation

MESSAGE FROM THE CHAIR

Saskatchewan Opportunities Corporation enjoyed another successful year in 2006 providing quality facilities and services to the tenants of Innovation Place in Saskatoon, Regina and Prince Albert.

SOCO has garnered national attention in the design, construction and operation of environmentally sustainable buildings.

The Forest Centre building in Prince Albert achieved Leadership in Energy and Environmental Design (LEED®) GOLD certification from the Canada Green Building Council. This is the first LEED®-certified building in Saskatchewan and one of only four in the Prairie provinces to achieve the GOLD-level designation.

SOCO tenants contributed an impressive provincial economic impact of more than $560 million in 2006. Developments planned for the future will see this impact continue to grow.

These achievements are the direct result of the expertise and hard work of the people at SOCO. They understand their clients and are committed to delivering the highest quality of service.

Partnerships have also been key to the success of SOCO. The universities, local business organizations and especially clients have all helped SOCO build excellent facilities and a great reputation. We had a lot to celebrate in 2006 and have great things to look forward to in 2007.

Blair Swystun
Chair of the Board

MESSAGE FROM THE PRESIDENT

2006 proved to be an exciting year for Saskatchewan Opportunities Corporation (SOCO). Many of the accomplishments during the year have put our company in a position of leadership within our industry and our community.

In 2006 our research parks attracted over 4,900 visitors from outside the province. Each visitor left with a greater understanding of Saskatchewan's technology sector. Approximately 200 of these visitors met directly with our management to seek our advice on research park development and operation.

The Forest Centre building in Prince Albert achieved LEED® GOLD designation in the fall and became the first LEED®-certified building in Saskatchewan. LEED® stands for Leadership in Energy and Environmental Design and is a rating system fast becoming the standard by which sustainable development is judged in North America.

SOCO had the opportunity to provide project manager services for the design and construction of a building for the University of Saskatchewan and the Saskatoon Health Region. The West Winds Primary Health Care Centre is the first such centre in Canada to bring together the primary health care services of a health region and a College of Medicine.

For the second consecutive year SOCO was ranked in the top twenty employers in Canada in the Queen's University, Hewitt Associates, Best Small and Medium Employers survey. This survey measures the level of employee engagement in their work activities.

I am particularly proud of the contribution our staff is making to various organizations that represent our industry. Ken Loeppky, Vice President, Research Park Operations, is President of the Building Owners and Managers Association (BOMA) Canada and sits on the Board of BOMA International. Austin Beggs, Director, Corporate Relations, is President of the Association of University Research Parks (AURP), an international research park association. Dillon Shewchuk, Marketing Manager, is President of the Saskatchewan Economic Developers Association (SEDA).

All of these accomplishments in 2006 set the stage for continued success in the future. With employees engaged in their work, their industry and their community, and fully committed to innovation, the future of SOCO is in good hands.

D. Tastad

Douglas Tastad
President and CEO

CORPORATE GOVERNANCE

In 2005 the Crown Investments Corporation (CIC) Chairs Forum requested that Saskatchewan Crown Corporations, as part of annual reports, commence using the Canadian Securities Administrators (CSA) corporate governance and disclosure guidelines to standardize the reporting and benchmarking of governance practices. The CSA guidelines have superseded the Toronto Stock Exchange guidelines previously used.

Summary

In accordance with the CSA disclosure rules, organizations must disclose the following information in all management information circulars, annual information forms and annual management discussion and analysis filed after a company's fiscal year ending on or after June 30, 2005.

Board Independence

The Saskatchewan Opportunities Corporation (SOCO) currently has an interim Board of Directors, appointed following the adjustments to SOCO's corporate structure in March of 2002.

A Director is considered independent as long as he or she has "no direct or indirect material relationship with the company that could reasonably interfere with the exercise of a member's independent judgment." As the interim Board of Directors consists of two senior management representatives of CIC (the holding company for commercial Crown corporations within Saskatchewan) and one member representative of the holder of the assets of SOCO (the provincial department of Industry and Resources), the Directors are not considered independent. However in all cases to date, the Board has exercised independent judgment and has acted in all material respects as an independent Board, including holding in-camera meetings.

Management has proposed and the Board has recommended the appointment of a new Board of Directors. Indications are that the new Board will be appointed and operational in 2007.

Board Responsibilities

The interim Board of SOCO does not currently have a written mandate but complies with the direction given to it arising out of the Subsidiary Crown Corporation Policy Manual generated by CIC, which broadly outlines the responsibility of the Board and the members of the Board. This includes position descriptions for the Board Chair, Committee Chairs and CEO as well as Board orientation and Director education.

The interim Board functions as the audit, compensation and nominating committees at the current time. It is anticipated that the new Board, when appointed, will select all of these committees and any other appropriate to the governance of the Corporation.

Director and Officer Compensation

The members of the interim Board of Directors received no compensation from SOCO during 2006.

The interim Board currently functions as the Compensation Committee; compensation for officers of the Corporation is consistent with overall policy as set by CIC and executive government.

CIC has adopted a new Framework for Executive Compensation. This Framework sets the salary ranges for the CEO, Vice Presidents and Executive Directors.

Director Nominations

Upon appointment of the permanent Board of Directors, that Board will form a nominating committee, which will operate in accordance with the CIC Subsidiary Crown Corporation's policy manual for the nomination of any other Directors.

Code of Ethics

The interim Board has not adopted a written code of ethics for directors, officers and employees. CIC has established a Director's Code of Conduct for all Boards of Subsidiary Crown Corporations.

STRATEGIC DIRECTION

The Government of Saskatchewan, as represented by the SOCO Board of Directors, has provided the management of SOCO with the direction necessary to guide corporate planning. This direction includes the corporate mission, the long-term vision for the company, the historic corporate values that supplement the CIC Crown sector values, and the broad goals in the four Balanced Scorecard categories.

Mission

To support the growth and success of the Saskatchewan technology sector through the development and operation of research parks.

SOCO's Mission affects the Corporation's future in the following two key ways:

- Growth of the technology sector is primarily achieved through the implementation of strategies that contribute to the growth of the research parks. To accommodate growth, adequate space must be available within the parks.

- To compete internationally, Saskatchewan companies and institutions need research infrastructure equal in quality to their competitors and an attractive work environment that supports their recruitment and marketing efforts.

Vision

Saskatchewan's research parks will be the best in the world.

- Tenants of the research parks compete in a worldwide marketplace for employees, investors and clients. To adequately support its clients, SOCO must also be prepared to compete with the best alternative locations throughout the world.

- The Corporation's Vision is intended to inspire employees towards excellence in everyday work and it is intended to act as a lens through which they make decisions. The vision affects every part of the Corporation: operations, administration and development.

Values

Excellence: *The pursuit of excellence in design, operations and administration.*

Innovation: *Innovation in all our business activities.*

Collaboration: *Open and accountable in all our partnerships.*

- Employees strive to be the best at development, management practices and financial performance.
- Innovation is expected of SOCO employees in all aspects of corporate activity.
- All stakeholders and particularly clients are considered partners. SOCO's intention is to share information as openly as possible with our partners and to accept the responsibility that comes with that openness.

Goals

To support the Government's objectives, to meet the mission and to reach SOCO's vision for the future, broad goals have been established in the four categories set by CIC's Balanced Scorecard process.

These goals are converted by management into defined and measurable strategic objectives representing corporate standards of performance for all staff.

1. Public Purpose

Grow Saskatchewan's technology sector by contributing to the growth of the parks' clients, supporting the establishment of new technology companies and attracting new science and technology activity to the province.

2. Customers and Stakeholders

Make it easy for all stakeholders to successfully accomplish their objectives in an environment of fairness, transparency and well-being.

3. Financial

Maintain profitability at a level that supports the growth of our parks by prudently managing expenditures and enhancing revenues while providing superior value to our clients.

4. Innovation and Growth

Through our efforts and by the example we set, enhance the performance of our industry, our environment and the people we serve.

1. Public Purpose

Objective	Measure/Calculation	2006 Target	2006 Actual	2007 Target
Job Creation	1. Employment growth within the parks	96	252	249
Maximize Economic Impact	2. Independent analysis of the economic impact of the research park tenants	$556M	$561M	$589M
	3. Number of new tenants in the parks locating from outside the province	5	3	4
	4. Number of startup companies locating in the parks	7	9	5

2. Customers and Stakeholders

Objective	Measure/Calculation	2006 Target	2006 Actual	2007 Target
Client Satisfaction	5. Percentage of CEOs that would recommend the parks to their colleagues	99%	99.63%	95%
Employee Satisfaction	6. Percentage of employees fully engaged in their work	80%	76%	70%
Public Support for Mission	7. Percentage of the general public that are aware of the parks and have a positive opinion of the parks	95%	98.2%	90%
Well-Trained Workforce	8. Percentage of annual gross salaries devoted to staff training	3%	1.77%	2.5%

3. Financial

Objective	Measure/Calculation	2006 Target	2006 Actual	2007 Target
Return on Investment	9. Cash return as a percentage of Cost of Assets	3%	2.97%	2.72%
Debt to Equity	10. Debt as compared to Equity	1.8:1	1.21:1	2.39:1
Operating Efficiency	11. Corporate Overhead as a percentage of Revenue	19%	15.77%	19%
Vacancy	12. Vacancy as a percentage of total space inventory	3.2%	5.3%	11.4%

4. Innovation and Growth

Objective	Measure/Calculation	2006 Target	2006 Actual	2007 Target
Reduce Non Renewable Energy Consumption	13. Non renewable energy per square foot of buildings within the parks	2% reduction	4.5% reduction	2% reduction
	14. BOMA Go Green average points per building			700
Sufficient Inventory for Demand	15. Available inventory to meet identified demand	60%	36.3%	106.5%
Saskatchewan Procurement	16. Percentage of expenditures sourced in Saskatchewan	91%	94.69%	90%
A Diverse Workforce	17. Percentage of aboriginal employees	8%	7%	7%
	18. Percentage of female employees	46%	43%	46%
	19. Percentage of employees with a disability	5%	5%	4%
	20. Percentage of employees who are a visible minority	5%	2%	3%

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

The following management discussion and analysis for SOCO should be read in conjunction with the audited financial statements and notes to those statements for the year ended December 31, 2006. What follows will provide the context within which the Corporation's financial statements should be analyzed.

Forward Looking Information

This discussion includes forward looking statements about SOCO's corporate direction and financial objectives. Due to the risks and uncertainties inherent in any forecast, the actual results could differ materially from those anticipated.

Corporate Overview

SOCO is a Saskatchewan Crown corporation with a direct reporting relationship to the provincial government through CIC. The corporate mission is to support the growth and success of Saskatchewan's technology sector. SOCO fulfills this mission through the development and operations of research parks on the campuses of the province's two universities in Saskatoon and Regina, as well as a forest sector building in downtown Prince Albert.

Core Business

SOCO designs and constructs specialized buildings primarily for technology companies. Revenue is generated from leasing space in these buildings to a wide range of tenants that support each other's success. A typical lease arrangement would include a five-year term with fixed revenue, adjusted annually for any increase in operating costs. Typical vacancy within buildings is approximately five per cent.

Major categories of operating costs include utilities, grants-in-lieu of taxes, building and grounds maintenance and corporate administration. For the most part both revenue and expenses are not subject to rapid change. Profitability is tightly linked to local real estate market conditions. The greatest opportunity for increased revenue is from the development of new buildings and an increase in rental rates.

SOCO attempts to provide its clients with a superior working environment that contributes directly to their success. A diverse mix of research and service tenants, a dynamic social atmosphere and high quality facilities work together to create a community that encourages interaction, collaboration and growth.

The quality of the environment is not only intended to enhance operating productivity and tenant innovation but to assist tenants in employee recruitment and corporate marketing.

Innovation Place Bio Processing Centre

SOCO operates this contract processing centre in Saskatoon. It extracts active compounds from plant material, primarily for cosmetic and specialized food purposes. Approximately 20 Saskatchewan companies have used the centre for their processing requirements as have a similar number from outside the province.

Keys To Success

The key measurement of success in meeting the mission for the Corporation is the growth in number of employees working within the parks. Particular attention is paid to the growth of existing tenants, startup companies and companies locating in the parks from outside the province. Growth of employees in the parks is directly linked to the construction of new buildings to accommodate that growth.

The primary leading indicator for growth is the level of identified demand relative to available space. The key indicator for demand is client satisfaction as most past growth has come from either existing tenants or referrals from existing tenants.

Financial success is primarily measured by cash return as a percentage of the cost of assets. Due to the fixed nature of most operating costs and the fact that revenue comes from medium-term contracts within a narrow variation in rental rates, the key internal signals for future success in cash flow are vacancy levels and corporate administrative costs as a percentage of revenue. The key external impacts on future financial success are local market conditions in rental rates and construction costs.

The Bio Processing Centre (BPC) has fundamentally different financial dynamics, as contracts are measured in terms of days and the industry is subject to substantial fluctuations based on changing markets for the processed products. Fluctuations are made even more dramatic due to the relatively early stage of business maturity typical of most BPC clients. Financial performance (net income) is affected by the utilization rate of the BPC and the margins of each process. The main policy objective of the BPC is support for the Saskatchewan bioproducts industry.

Capability To Deliver Success

To meet the growth needs of tenants and to accommodate new tenants, development of new buildings is necessary. During the past year a major office building neared completion in Saskatoon. This building, opening by mid 2007, will provide adequate space to meet demand in the short term. Space availability continues to limit growth in Regina. Design continued for two new buildings in Regina. The first of these buildings is planned to be under construction before the third quarter of 2007.

Based on current market conditions SOCO has the financial resources to support a building program of approximately $20 million per year. Management anticipates this level of construction is relatively in balance with present levels of demand. If demand increases, the capacity to meet that demand would be constrained by existing financial resources. The strong and growing economy makes that situation a real concern. An offsetting dynamic is the recent increase in rental rates. Capitalizing on the improvement in rental rates will provide additional resources for investment in new development.

SOCO has increased its capability in marketing and human resource management by adding staff in these areas during 2006. Additional staff in the areas of project management and property management are planned for 2007.

During 2006, the Bio Processing Centre received a Good Manufacturing Practices site licence from Health Canada. This licence allows the Bio Processing Centre to provide processing services to the natural health products industry. Non-licenced processors will be precluded from processing natural health products as of January 1, 2008.

Results

The key category of growth showed an increase of 252 employees in SOCO facilities during 2006, over double the target for the year. This stronger than expected growth resulted from a combination of the continued growth of existing tenants, three new tenants attracted from outside Saskatchewan and the location of nine startup companies within the parks.

Direct economic impact of SOCO's clients grew to $561 million from $527 million in 2005, exceeding the target of $556 million.

Identified demand for space was over 350,000 square feet, or twice the space either vacant or under development.

Client satisfaction was at its traditional level of 99 per cent. SOCO ranked in the top twenty Best Small and Medium Employers in Canada for the second straight year.

Revenues of $24.6 million were up from $22.9 million in 2005 due mainly to increased activity in the Bio Processing Centre, three additional months operations and increased occupancy of the Forest Centre, increase in recovery revenue, as well as an increase in interest revenue.

Expenses of $19.7 million are up from $17.4 million in 2005. This increase is primarily due to increased costs in the Bio Processing Centre, the Forest Centre, various park operating costs such as property taxes, utilities and repairs, and increases to administration expenses. Administrative expenses as a percentage of revenue were 15.77 per cent, substantially lower than the target of 19 per cent.

Earnings of $4.8 million decreased from $5.5 million in 2005. More than half the difference resulted from increased amortization expense due to growing capital investment.

Investment in capital assets of $17.5 million increased from $6.4 million in 2005. This increase is due to the construction of a new building at Innovation Place in Saskatoon. The additional $17 million of debt acquired during 2006 is also attributed to the construction of the new building in Saskatoon.

Outlook

Demand for space in SOCO's facilities remains high. In response to this demand, SOCO has developed a capital plan for the next five years that represents a potential investment of $100 million. This level of investment would accommodate approximately 2,000 additional tenant employees. The first new building approval is expected in the spring of 2007 with another potentially in the fall.

Financial results for 2007 are expected to be marginally lower than the 2006 results. Rental and Bio Processing Centre revenues are budgeted to increase substantially with a somewhat smaller increase in corresponding operations expenses. An increase in administration expense is expected, largely due to increased salary costs. Interest expense and amortization expense are also expected to increase from 2006.

The best opportunity for improving forecasted results comes from the potential that a general increase in rental rates will occur during the next number of years. The existing inventory of approximately 1.5 million square feet provides a strong base for revenue increases in a period of rental rate escalation.

The continued growth of revenues from the Bio Processing Centre also offers an opportunity for improved results. Many of the clients of the Bio Processing Centre are at critical points in their corporate growth. If sales continue to grow for these clients, the Bio Processing Centre will have the chance to substantially improve its utilization rates and earnings.

Risk

The primary area of risk for the company is the ability to meet its capital plan. There are two elements of new construction that are largely outside of the control of management — construction costs and interest rates. If construction costs continue to rise at recent rates without a corresponding increase in market rental rates, the capital plan for the next five years will be put at risk. The same is true for interest rates. The capital plan anticipates approximately 70 per cent of the capital invested in new projects will be financed by interest bearing debt.

If demand for space was to fluctuate substantially in the future, the assumptions in the capital plan will be re-evaluated. It is possible that demand could unexpectedly increase or decrease due to conditions not apparent at this time.

The nature of our longer term lease contracts and the diversity of clients lower the risk of any dramatic impact on financial return from existing buildings. New building projects must be supported by a reasonable level of lease commitments prior to the project commencement to mitigate the risk of rapid changes in demand during the construction period.

The risk associated with the Bio Processing Centre is substantially different. The main risk is a reduction in demand for processing. This demand has historically been very volatile. A continued effort to increase the number and diversity of clients will manage this risk.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of the Saskatchewan Opportunities Corporation have been prepared by corporate management in accordance with Canadian generally accepted accounting principles and necessarily include amounts based on informed judgment and management estimates. Financial information presented elsewhere in this annual report is consistent with that in the financial statements.

The Corporation's independent auditors, Deloitte & Touche LLP, have examined the financial statements of the Corporation. The scope of their examination and their opinion on whether these financial statements present fairly the Corporation's financial position and operating results are given in the auditors' report.

Ensuring the integrity and objectivity of financial information is an integral part of management's responsibility to the ongoing operation. Management maintains an appropriate system of internal controls, policies and procedures to provide reasonable assurance that all financial transactions are recorded on a timely basis with proper approvals and result in reliable financial statements.

The interim Board of Directors has reviewed and approved these financial statements. The entire interim Board acts as an audit and finance committee and meets periodically with management. The interim Board met with the auditors and management to discuss internal accounting controls, audit results and accounting principles and practices.

On behalf of management,

D. Tastad

Douglas Tastad
President & Chief Executive Officer

C. Callander

Charlene Callander
Vice President & Chief Financial Officer

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Opportunities Corporation as at December 31, 2006 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures are based upon financial statements which were reported on by another public accounting firm, having issued an unqualified audit report under the date of March 9, 2006.

Deloitte & Touche LLP

Charted Accountants

Regina, Saskatchewan
February 16, 2007

FINANCIAL REPORT

Consolidated Statement of Financial Position

AS AT DECEMBER 31

		2006 (000s)		2005 (000s) Restated, Note 3
ASSETS				
Cash	$	8,541	$	1,273
Accounts receivable		3,464		4,800
Prepaid expenses		208		406
Property, plant and equipment (note 4)		24,404		7,689
	$	36,617	$	14,168
LIABILITIES AND PROVINCE'S EQUITY				
Accounts payable and accrued liabilities	$	5,091	$	4,401
Deferred revenue		458		554
Notes payable (note 5)		17,000		-
		22,549		4,955
Province of Saskatchewan's Equity				
Retained earnings		14,068		9,213
	$	36,617	$	14,168

(Commitments and contingencies - note 10)

(See accompanying notes)

On behalf of the Board

Blair Swystun
Director

Kathryn Buitenhuis
Director

Consolidated Statement of Operations and Retained Earnings

FOR THE YEAR ENDED DECEMBER 31

	2006 (000s)	2005 (000s)
		Restated, note 3
REVENUE		
Rental	$ 21,125	$ 20,157
Bio Processing	2,746	2,313
Other	721	500
	24,592	22,970
EXPENSES		
Administration	3,877	3,395
Rental operations	12,812	11,635
Bio Processing operations	2,264	2,047
Interest (note 6)	35	-
Amortization	749	338
	19,737	17,415
NET INCOME	4,855	5,555
Retained earnings, beginning of year, as previously reported	8,914	3,420
Adjustment due to change in accounting policy (note 3)	299	238
Retained earnings, beginning of year, restated	9,213	3,658
Retained earnings, end of year	$ 14,068	$ 9,213

(See accompanying notes)

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED DECEMBER 31

	2006 (000s)	2005 (000s)
		Restated, note 3
OPERATING ACTIVITIES		
Net income	$ 4,855	$ 5,555
Add non-cash item:		
Amortization	749	338
	5,604	5,893
Change in non-cash operating items:		
Accounts receivable	1,336	(1,501)
Prepaid expenses	198	15
Accounts payable and accrued liabilities	(1,310)	1,187
Deferred revenue	(96)	(59)
Cash provided by operating activities	5,732	5,535
INVESTING ACTIVITIES		
Change in accounts payable for capital	2,000	(936)
Purchases of property, plant and equipment	(17,464)	(6,397)
Cash used in investing activities	(15,464)	(7,333)
FINANCING ACTIVITIES		
Proceeds from notes payable	17,000	-
NET CHANGE IN CASH DURING THE YEAR	7,268	(1,798)
CASH, BEGINNING OF YEAR	1,273	3,071
CASH, END OF YEAR	$ 8,541	$ 1,273

Supplementary Information:

Interest paid on notes payable	$ 285	-

(See accompanying notes)

Notes to Consolidated Financial Statements

DECEMBER 31, 2006

1. STATUS OF CORPORATION

Saskatchewan Opportunities Corporation (the "Corporation") was incorporated under The Saskatchewan Opportunities Corporation Act, which was proclaimed and came into force in 1994. The Corporation is an agent of the Her Majesty in Right of the Province of Saskatchewan and as a provincial Crown corporation is subject to neither federal nor provincial income tax. The financial results of the Corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan (CIC).

The Corporation's mandate is to create, encourage and facilitate business opportunities in the Saskatchewan technology sector, primarily through the development and operation of research and development parks.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The following accounting policies are considered to be significant:

a) Principles of consolidation

These consolidated financial statements include the accounts of Saskatchewan Opportunities Corporation and 212822 Saskatchewan Ltd., a Variable Interest Entity (note 3).

b) Property, plant and equipment

Property, plant and equipment are recorded at the lower of cost, net of accumulated amortization, and net recoverable amount. Rental assets consist of buildings at Innovation Place in Saskatoon, Regina, and Prince Albert, as well as related site improvement costs, tenant improvements and equipment. Office equipment and furniture are used by the Corporation for its own use.

Buildings and site improvement costs, net of estimated residual value, are amortized on a straight-line basis over the estimated useful life of the particular asset (15 to 40 years). Tenant improvements are amortized on a straight-line basis over the term of the associated lease (5 to 10 years). Equipment and furniture are amortized on a straight-line basis over three to five years.

Construction in progress consists of buildings and tenant improvements currently under development. Costs capitalized to assets under development include all direct and directly attributable expenditures incurred in connection with the acquisition, development, construction and operating losses during the initial predetermined leasing period. Costs directly attributable to development projects include interest and salaries and benefits of employees directly associated with the development projects. Revenue generated from the project during the development period is treated as a reduction of costs.

Notes to Consolidated Financial Statements

DECEMBER 31, 2006

c) Revenue recognition

The Corporation uses the straight-line method of recognizing rental revenue whereby the total amount of contractual rent to be received from leases is accounted for on a straight-line basis over the term of the lease. Accordingly, deferred rent receivable is recorded for the difference between the straight-line rental revenue recorded and the contractual amount due from tenants. See note 3 for change in accounting policy.

With the exception of rental revenue, revenue is recognized as services are provided to customers, tenants and clients using the accrual basis of accounting.

Amounts received in advance of contract terms are recorded as deferred revenue.

d) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

3. ACCOUNTING CHANGES

a) Consolidation of variable interest entities

During the year, the corporation adopted CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG 15). This policy relates to the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. The purpose of AcG-15 is to provide guidance for determining when an enterprise includes the assets, liabilities and operating results of a Variable Interest Entity (VIE).

An entity falls under the guidance in AcG 15 and is classified a VIE if it has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or equity investors lack either voting control, an obligation to absorb expected losses, or the right to relieve expected residual returns. AcG 15 requires consolidation of VIEs by the Primary Beneficiary. The Primary Beneficiary is defined as the party who has the exposure to the majority of the VIE's expected losses and/or residual returns.

Notes to Consolidated Financial Statements

DECEMBER 31, 2006

The Corporation has determined that 212822 Saskatchewan Ltd. (operating as Boffins) falls under the classification of a VIE and has been consolidated in these financial statements.

As AcG 15 was effective for periods beginning after November 1, 2004, the accounting change has been retroactively applied with the prior period information being restated. The impact of consolidating the VIE on the consolidated statement of financial position and consolidated statement of operations and retained earnings was to increase (decrease) assets, liabilities, equity and income as follows:

	2005 (000s)
Cash	$ 77
Accounts receivable	60
Accounts payable and accrued liabilities	121
Opening and closing retained earnings	16
Rental revenue	1,195
Administration	(34)
Rental operations	1,229

There is no impact to net income for 2005.

b) Revenue recognition

In prior years, all revenue was recognized based on the Corporation's right to receive revenue pursuant to contracts with customers, tenants and clients. During the year, the Corporation changed its policy with respect to how revenue is recognized for operating leases to recognize revenue on a straight-line basis over the term of the lease. The change to the straight-line basis of accounting for rental revenue has been applied retroactively. The impact on the consolidated statement of financial position and consolidated statement of operations and retained earnings was to increase assets, equity and income as follows:

	2005 (000s)
Accounts receivable	$ 283
Opening retained earnings	222
Closing retained earnings	283
Rental revenue/Net income	61

Notes to Consolidated Financial Statements

DECEMBER 31, 2006

4. PROPERTY, PLANT AND EQUIPMENT

	Cost (000s)	Accumulated Amortization (000s)	2006 Net Book Value (000s)	2005 Net Book Value (000s)
Rental assets	$ 5,601	$ 736	$ 4,865	$ 1,823
Office equipment and furniture	2,717	2,081	636	629
Construction in progress	18,903	-	18,903	5,237
	$ 27,221	$ 2,817	$ 24,404	$ 7,689

In 2004 and 2005, rental assets with an original total cost of $181,828,000 were transferred to the Province of Saskatchewan's General Revenue Fund (GRF) in exchange for the GRF forgiving notes payable and long-term debt of the corporation outstanding at April 1, 2004. Under an operating agreement with the Department of Industry and Resources, dated March 2, 2005, the Corporation leases the transferred assets for a nominal annual amount. Under the terms of this agreement, the corporation has been assigned all rental revenue generated and is responsible for all costs associated with their operation.

5. NOTES PAYABLE

At December 31, 2006, the Corporation had short-term debt payable to the GRF of $17,000,000 (2005 - nil), due March 30, 2007. Short-term notes from the GRF bear interest at rates established on a quarterly basis by Saskatchewan Department of Finance. The interest rate at December 31, 2006 is 4.22%.

6. INTEREST

Interest expense consists of the following:

	2006 (000s)	2005 (000s)
Notes payable	$ 289	$ -
Interest capitalized	(254)	-
	$ 35	$ -

Notes to Consolidated Financial Statements

DECEMBER 31, 2006

7. FINANCIAL INSTRUMENTS

a) Fair values

The fair value of financial assets and liabilities approximates carrying value due to their immediate or short-term nature.

b) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. Although the Corporation's policy to promote economic development leads to accepting some tenants that have higher credit risk, potential losses are mitigated by the fact that no one tenant occupies more than 10% of rentable space.

c) Interest rate risk

Interest rate risk is the risk of financial loss resulting from changes in market interest rates. The corporation is exposed to interest rate risk on the maturity of its notes payable.

8. PENSION PLAN

All employees are members of the Capital Pension Plan, a defined contribution plan administered by CIC. The Corporation's financial obligation is limited to making regular contributions in proportion to employees' earnings. These contributions are charged to income when made. Pension expense for the year was $321,000 (2005 - $270,000).

9. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan are also considered related parties.

Routine operating transactions with related parties are settled at agreed upon amounts under normal trade terms. These transactions and amounts outstanding at year end are as follows:

Notes to Consolidated Financial Statements

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	2006 (000s)	2005 (000s)
Accounts receivable	$ 319	$ 1,225
Prepaid expenses	41	145
Accounts payable and accrued liabilities	379	183
Deferred revenue	196	340
Rental revenue	8,176	7,291
Rental operations expense	2,285	2,287

The Corporation pays Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

10. COMMITMENTS AND CONTINGENCIES

The estimated cost to complete projects under construction is approximately $8,200,000 (2005 – $22,581,000).

The Corporation holds long-term land leases with both the University of Saskatchewan (expires 2061) and the University of Regina (expires 2097) for research park development. The actual annual lease payments are nominal.

The Corporation continues its discussion with the City of Saskatoon regarding electrical consumption for one building at Innovation Place that was not appropriately metered for the period of 1987 to 2002. The Corporation has accrued a payable which is considered to be a reasonable estimate based on the current facts. The Corporation will account for any difference in the settlement amount in the period in which the issue is resolved.

The Corporation is also the defendant in other legal suits and disputes that have arisen in the normal course of business. The Corporation does not believe that the ultimate resolution of these matters will result in any material liability.

Notes to Consolidated Financial Statements

DECEMBER 31, 2006

11. COMPARATIVE FIGURES

Certain amounts for the prior year have been reclassified to conform with current year financial statement presentation.

CORPORATE INFORMATION

INTERIM BOARD OF DIRECTORS

Blair Swystun, Chair
Vice President & Chief Financial Officer
Crown Investments Corporation
Regina, SK

Kathryn Buitenhuis
Executive Director, Innovation & Research
Crown Investments Corporation
Regina, SK

Glen Veikle
Associate Deputy Minister
Industry and Resources
Regina, SK

CORPORATE OFFICERS

Douglas Tastad
President & Chief Executive Officer

Ken Loeppky
Vice President, Research Park Operations

Charlene Callander
Vice President & Chief Financial Officer

SENIOR MANAGEMENT

Gord Joorisity
Executive Director, Project Management

Brent Sukenik
Executive Director, Finance and Administration

Lorne Vinish
Executive Director, Business Services

Austin Beggs
Director, Corporate Relations

Jackie Presnell
Director, Marketing

Sherry Timmerman
Director, Human Resources

Rob Trimble
Director, Technical Operations & Asset Management

Gregg Willie
Director, Bio Processing Centre

Pennie Bainbridge
Brand Manager

Debbie Haluik
Senior Property Manager

Susan Burton
Executive Assistant to the President

SOCO

SASKATCHEWAN OPPORTUNITIES CORPORATION

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